

# THE NSP SUBSTANTIAL AMENDMENT

Jurisdiction(s): <b>CITY OF CHATTANOOGA</b> <i>(identify lead entity in case of joint agreements)</i>	NSP Contact Person: Sandra Gober Address: 101 E. 11 <sup>th</sup> Street, Suite 200 City Hall, Chattanooga, TN 37402 Telephone: 423-757-5133 Fax: 423-425-6447 Email: gober_sandra@mail.chattanooga.gov
Jurisdiction Web Address: www.chattanooga.gov • <i>(URL where NSP Substantial Amendment materials are posted)</i>	

## ***A. AREAS OF GREATEST NEED***

Provide summary needs data identifying the geographic areas of greatest need in the grantee's jurisdiction.

**Note:** An NSP substantial amendment must include the needs of the entire jurisdiction(s) covered by the program; states must include the needs of communities receiving their own NSP allocation. To include the needs of an entitlement community, the State may either incorporate an entitlement jurisdiction's consolidated plan and NSP needs by reference and hyperlink on the Internet, or state the needs for that jurisdiction in the State's own plan. The lead entity for a joint program may likewise incorporate the consolidated plan and needs of other participating entitlement jurisdictions' consolidated plans by reference and hyperlink or state the needs for each jurisdiction in the lead entity's own plan.

HUD has developed a foreclosure and abandonment risk score to assist grantees in targeting the areas of greatest need within their jurisdictions. Grantees may wish to consult [this data](#), in developing this section of the Substantial Amendment.

Response:

The HUD generated data for the Neighborhood Stabilization Program was analyzed to examine the following factors:

- Number of foreclosures per census tract with area incomes <= 120% of median income
- Abandonment foreclosure risk scores by census tracts and City Council Districts
- Ratio of the number of high mortgages and estimated number of foreclosures
- Number of vacant and abandoned properties within each census tract in the jurisdiction
- Number of abandoned, back tax, dilapidated residential structures, vacant lots and city-owned properties in the jurisdiction
- Existing and on-going projects in the jurisdiction that could complement the NSP

The City of Chattanooga's areas of greatest need and focus for the use of Neighborhood Stabilization Program (NSP) funds was ascertained to be census tracts with high "abandonment foreclosure risk scores" of 9 and 10, and neighborhoods where at least 51% of the residents' per capital income is  $\leq 120\%$  of median income. The analysis revealed that eighteen (18) census tracts in the jurisdiction fall within this grouping:

1. Census Tracts 1,2,3,4,8,11, 12,13, 19, 23, 24, 25, 26, 29, 30, 32, 33, and 115 and the corresponding Council Districts-1,5, 6, 7, 8, and 9 (six out of nine Council Districts).
2. Census Tracts 1, 2, 3, 4, 12 and 115 form the geographic boundaries of one of the City's Weed and Seed Project site that is composed of neighborhoods in East Chattanooga (Avondale, Glenwood, Glenwood Heights, Orchard Knob, Bushtown, Churchville, Chamberlain, Judson Lane, Harriet Tubman, and Steiner).
3. Census Tracts 4, 8, 12, 14, 15, 19, 24, 25, 32, and 33 constitute the study area of the City's "Residential Survey and Documentation of Exterior Conditions Study". The study was conducted by J-Quad, a consultant firm that surveyed residential structures, vacant lots and structures. The study covered eighteen inner-city neighborhoods: Alton Park, Avondale, Bushtown, Cedar Hill, Churchville, Clifton Hills, East Chattanooga, Eastdale, East Lake, Glenwood, Hill City, Howard, Oak Grove, Orchard Knob, Piney Woods, Ridgedale, Highland Park, and M. L. King.

The NSP requires that at least 25% of the funds are used to address the housing needs of individuals and families that are  $\leq 50\%$  of the area's median income.

#### ***B. DISTRIBUTION AND USES OF FUNDS***

Provide a narrative describing how the distribution and uses of the grantee's NSP funds will meet the requirements of Section 2301(c)(2) of HERA that funds be distributed to the areas of greatest need, including those with the greatest percentage of home foreclosures, with the highest percentage of homes financed by a subprime mortgage related loan, and identified by the grantee as likely to face a significant rise in the rate of home foreclosures. **Note:** The grantee's narrative must address these three stipulated need categories in the NSP statute, but the grantee may also consider other need categories.

#### **Response:**

In accordance with Section 2301(c)(2) of the Housing and Economic Recovery Act of 2008 (HERA), the City of Chattanooga, with the assistance of nonprofit partners in the housing industry, will ensure that all funds from NSP will be directed to projects that impact the targeted census tracts and communities. The NSP funds will be focused in neighborhoods with the highest percentage of homes financed, the highest percentage of homes financed by a subprime mortgage related loan, areas

that are most likely to face significant rise in the rate of home foreclosures and neighborhood block groups with high numbers of abandoned, blighted, and vacant lots and properties.

The city anticipates receiving \$2,113,727 in NSP funds from HUD. These funds and any other NSP funds that may become available will be used as follows:

- 25% will be used to benefit individuals that fall within the  $\leq 50\%$  area median income (\$26,700 family of four) for the purchase of abandoned or foreclosed upon homes or residential properties that will house eligible families/individuals. HUD and THDA combined funds will equal to **\$528,431**
- 10% of the HUD NSP funds of **\$211,300** will be used for Administration & Planning activities.
- 65% of the NSP funds of **\$1,373,996** will be used for projects in the areas designated as in the “greatest need”.

The Proposed Projects are:

1. **Land Bank**—This will be undertaken by the City to remove barriers that in the past have hampered the conversion of abandoned and blighted land to better uses in order to stabilize residential neighborhoods and return properties to the tax rolls. Abandoned and or foreclosed upon properties, such as FHA owned properties, will be purchased at a discount. City owned scattered sites may be assembled, and back tax properties in default, with clear title, may be assembled for future development.
2. **New Construction/Redevelopment**-Vacant land will be redeveloped by construction of new housing units to increase the stock of affordable rental and housing units for homeownership opportunities. The activities will be carried out by nonprofit organizations and private developers to construct, renovate, and manage projects in selected neighborhoods. Among the new construction, transitional housing and redevelopment activities will be projects that are designed to fulfill the need of addressing the use of the 25% set-aside to be used to benefit persons at 50% or below the median income.
3. **Demolition**-Funding will be available to remove blighted structures that pose a safety hazard to the community and are structurally unsound for redevelopment or renovations. These properties may be reserved and held and converted for land banking for future construction of rental or homeownership housing units.
4. **Financing**-Housing development partners will work through local financial institutions to develop permanent first and second mortgage products (FHA) and other types of loans) for prospective home purchasers; for the purchase of foreclosed upon properties and either newly constructed homes or renovated

properties. Financial institutions' reputation and tract record will be of such as to offer competitive rates and flexibility in its mortgage products and limits its fee structure to be advantageous to the borrower, protecting the home buyer from future predatory lending practices.

The jurisdiction proposes to work with local nonprofit organizations in partnership to develop, implement and deliver the NSP in the areas of greatest need. Among the organizations, but not limited to, are:

- Chattanooga Neighborhood Enterprise
- 28<sup>th</sup> District CDC
- Chattanooga Community Housing Development Organization (CCHDO)
- Community Impact Fund
- Chattanooga Homeless Coalition

Opportunities to participate in the development of NSP projects will be open to nonprofits and private developers through a public competitive process. Projects will be submitted in the form of proposals to the City of Chattanooga's NSP. The proposals will describe NSP project activities, outline objectives and performance outcomes, and cite the CDBG national objective to be accomplished as a result of the specific project.

All projects will be developed and implemented within a period of 18 months beginning January 2009 with project initiation to be no later than June 2010.

### *C. DEFINITIONS AND DESCRIPTIONS*

Definition of "blighted structure" in context of state or local law.

#### Response:

The local laws that govern conditions of structures in the City of Chattanooga provide the minimum requirements and standards for premises, structures, equipment and facilities to ensure a safe and healthful environment. The **City Codes** are adopted by the local governing body and are outlined as follows:

### **Housing Chapter 21**

#### **Section 21-4. Definitions**

- (1) **Structure** shall mean that which is built or constructed, an edifice or building of any kind, or any piece of work artificially built up or composed of parts joined together in some definite manner. The term "structure" shall be construed as if followed by the words "or part thereof".

## Sec. 21-122. Definitions

- (2) A “**Blighted**” or “deteriorated” property means any vacant structure or vacant or unimproved lot or parcel of ground in a predominantly built-up neighborhood, which property is not used for agricultural purposes:
- (i) Which because of physical condition or use is regarded as a public nuisance at common law or has been declared a public nuisance in accordance with local housing, building, plumbing, fire or related codes;
  - (ii) Which because of physical condition, use of occupancy is considered an attractive nuisance to children, including, but not limited to, abandoned wells, shafts, basements, excavations, and unsafe fences or structures;
  - (iii) Which because it is dilapidated, unsanitary, unsafe, vermin-infected or lacking in the facilities and equipment required by the housing code of the municipality, has been designated by the appropriated by the appropriated agency of department responsible for enforcement of the code as unfit for human habitation;
  - (iv) Which is a fire hazard, or is otherwise dangerous to the safety of persons or property;
  - (v) From which the utilities, plumbing, heating, sewerage or other facilities have been disconnected, destroyed, removed, or rendered ineffective so that the property is unfit for its intended use;
  - (vi) Which by reason of neglect or lack of maintenance has become a place for accumulation of trash and debris, or a haven for rodents or other vermin;
  - (vii) Which has been tax delinquent for a period of at least three (3) years; or
  - (viii) Which has not been rehabilitated within the time constraints placed upon the owner by the appropriate code enforcement agency.
- (b) “Blighted” or “deteriorated” property shall also include displaced and /or vacant industrial and commercial properties and facilities.

Other definitions that shall apply to the City of Chattanooga’s NSP in accordance with the Housing and Economic Recovery Act of 2008 (HERA) are:

- (3) **Abandoned:** A home is abandoned when mortgage or tax foreclosure proceedings have been initiated for that property, no mortgage or tax payments have been made by the property owner for at least 90 days, and the property has been vacant for at least 90 days.
- (4) **Current Market Appraised Value:** The current market appraised value means the value of a foreclosed upon home or residential property that is established through an appraisal made in accordance with the appraisal requirements of the Uniform Relocation and Property Acquisition Act at 49

CFR 24103 and completed within 60 days prior to an offer made for the property by a subrecipient, grantee, developer or individual homebuyer.

- (5) **Foreclosed:** A property “has been foreclosed upon” at the point that, under state or local law, the mortgage or tax foreclosure is complete, and title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law.

The purpose of the NSP is to stabilize neighborhoods by purchasing and redeveloping abandoned and foreclosed upon properties. Each NSP funded activity must be a CDBG eligible activity and meet a CDBG national objective.

(6) **Eligible Activities**

- Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low to moderate income homebuyers. This includes activity delivery costs as an eligible activity.
- Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent or redevelop such homes and properties. This also includes relocation costs, direct homeownership assistance and housing counseling.
- Establish land banks for homes that have been foreclosed upon. The land bank may not hold the property for more than 10 years without obligating the property for a specific, eligible redevelopment of that property in accordance with NSP requirements.
- Demolish blighted structures.
- Redevelop demolished or vacant properties, including the new construction of housing to redevelop demolished or vacant properties.

(7) **Ineligible Activities**

- Activities ineligible under the CDBG program
- Foreclosure prevention activities
- Demolition of structures that are not blighted
- Purchase of residential properties and homes that have not been foreclosed upon

- Pay for any cost that is not eligible under NSP

(2) Definition of “affordable rents.” **Note:** Grantees may use the definition they have adopted for their CDBG program but should review their existing definition to ensure compliance with NSP program –specific requirements such as continued affordability.

Response:

NSP funds may be used to develop affordable rental housing for low income households through new construction or conversion, acquisition, or acquisition and rehabilitation. NSP-assisted rental units are rent and income controlled for a period of ten years regardless of the amount of NSP funds invested per unit.

(3) Describe how the grantee will ensure continued affordability for NSP assisted housing.

Response:

To ensure continued affordability, NSP project sponsors, owners and/or developers will be required to sign a grant note, deed of trust, and restrictive covenant to enforce the affordability period.

The city will adopt the HOME program standards at 24 CFR 92.252 (a), (c), (e), 92.254 as the affordability standards and enforcement to ensure continued affordability.

(4) Describe housing rehabilitation standards that will apply to NSP assisted activities.

Response:

The City of Chattanooga's Land Development Office uses approved regulations and specifications for building, gas, mechanical, electrical, plumbing and zoning codes adopted by the City Council to ensure quality construction of a safe finished and altered structure for the benefit of public and/or private use. The adopted codes are:

- 2003 International Residential Code
- 2003 International Building Code
- 2003 International Fire Code
- 2003 International Fuel Gas Code
- 2003 International Plumbing Code
- 2003 International Mechanical Code
- 2005 National Electric Code
- ANSI A117.1-1998
- 2002 Chattanooga Zoning Ordinance

The International Code books are available on the website: [www.iccsafe.org](http://www.iccsafe.org)

#### ***D. LOW INCOME TARGETING***

Identify the estimated amount of funds appropriated or otherwise made available under the NSP to be used to purchase and redevelop abandoned or foreclosed upon homes or residential properties for housing individuals or families whose incomes do not exceed 50 percent of area median income: **\$528,431**.

**Note:** At least 25% of funds must be used for housing individuals and families whose incomes do not exceed 50 percent of area median income.

#### **Response:**

Persons with incomes of 50% or less usually cannot sustain the cost of homeownership because of the limited number of safe, habitable and affordable housing units. And, the high cost of mortgages due to unstable interest rates, cost burdened mortgages and down payments, upkeep and general property maintenance costs, property taxes, and predatory lending has resulted in the increase in the number of foreclosed upon houses in specific neighborhoods.

Under the NSP, the PJ proposes to partner with community organizations that seek to address the housing needs of this very low income population. The purpose of this partnership will be to guarantee availability of housing that is developed specifically to provide the subsidies and housing development assistance to address the shortages and thus increase the availability of housing for persons in this income bracket.

All projects for homeownership will require that prospective homeowners receive a minimum of 8 hours of counseling from a certified HUD Housing Counseling Agency.

#### ***E. ACQUISITIONS & RELOCATION***

Indicate whether grantee intends to demolish or convert any low- and moderate-income dwelling units (i.e.,  $\leq 80\%$  of area median income).

If so, include:

- The number of low- and moderate-income dwelling units—i.e.,  $\leq 80\%$  of area median income—reasonably expected to be demolished or converted as a direct result of NSP-assisted activities.
- The number of NSP affordable housing units made available to low-, moderate-, and middle-income households—i.e.,  $\leq 120\%$  of area median income—reasonably expected to be produced by activity and income level as provided for in DRGR, by each NSP activity providing such housing (including a proposed time schedule for commencement and completion).
- The number of dwelling units reasonably expected to be made available for households whose income does not exceed 50 percent of area median income.



Response:

There are no plans to relocate individuals or businesses due to acquisition activities under the NSP. The projects will be implemented to focus on foreclosed upon properties, vacant and abandoned properties and, demolition of blighted structures that have been unoccupied for a minimum of 90 days or more.

***F. PUBLIC COMMENT***

Provide a summary of public comments received to the proposed NSP Substantial Amendment.

**Note:** proposed NSP Substantial Amendment must be published via the usual methods and posted on the jurisdiction's website for no less than 15 calendar days for public comment.

Response:

The Chattanooga City Council approved the Department of Neighborhood Services and Community Development submission to HUD of the Substantial Amendment of the 2008-2009 Action Plan on November 4, 2008.

The Substantial Amendment was posted on the city's web site at [www.chattanooga.gov](http://www.chattanooga.gov) on November 11, 2008 for a period of fifteen (15) days for public comment. The public was given until November 25, 2008 to submit written comments on the NSP. The Substantial Amendment notice was also published in the local daily newspaper that has a broad based readership among citizens.

One comment was received on November 19, 2009. The citizen's written correspondence noted that NSP funds would be best utilized for (1) homeland security; (2) construction of a truck stop in the Chattanooga area; and, (3) to create additional jobs in the automotive industry. The letter will be retained on file for future reference.

## **ACTIVITY 1**

**Land Bank**—This will be undertaken by the City to remove barriers that in the past have hampered the conversion of abandoned and blighted land to better uses in order to stabilize residential neighborhoods and return properties to the tax rolls. Abandoned and or foreclosed upon properties, such as FHA owned properties, will be purchased at a discount. Each property considered for purchase will be appraised in accordance with the definition in the NSP regulations. That information will be used to negotiate a discount of, on average, at least 15% using the formula provided in the NSP regulations. City owned scattered sites may be assembled, and back tax properties in default, with clear title, may be assembled for future development by the City or partner organizations. Properties will be developed and or disposed of through resale to qualified home buyers whose incomes do not exceed 120% of AMI at discounts, or through RFP processes for the most feasible plan for the use of the property. Properties will not be banked for more than ten years. The City will place a lien or land use restriction agreement on the property to ensure required use and long term affordability.

**National Objective:** Benefit low, moderate and middle income person i.e.,  $\leq 120\%$  of area median income.

### **Activity Type:**

NSP Eligible Use:	CDBG Eligible Activity:
(C) Establish land banks for homes that have been foreclosed upon	24 CFR 570.201 (a) Acquisition and (b) Disposition

**Budget for Activity:** \$250,000

**Projected number of units:** 5

## **ACTIVITY 2**

**New Construction/Redevelopment-Vacant** land will be redeveloped by construction of new housing units to increase the stock of affordable rental and housing units for homeownership opportunities. The activities will be carried out by nonprofit organizations and private developers to construct, renovate, and manage projects in selected neighborhoods. Among the new construction, transitional housing and redevelopment activities will be projects that are designed to fulfill the need of addressing the use of the 25% set-aside to be used to benefit persons at 50% or below the median income. Rehabilitation programs/projects will include a

minimum of 8 hours of housing counseling by HUD Certified Counseling Agencies for those seeking to take part in the activity.

**Rental Housing and Homebuyer Activities** For single family rental, lease purchase and home-ownership properties, the City of Chattanooga will use the HOME minimum affordability periods for the amount of NSP funds invested as shown below. Rental and homebuyer activities housing will remain affordable for not less than the applicable period, beginning after project completion for construction/rehabilitation and after closing for homebuyer activities. The affordability requirements will apply without regard to the term of any loan or mortgage or the transfer of ownership. The affordability requirements will be imposed by deed restrictions, covenants running with the land or other mechanisms approved by the City. The Grantee/City may use purchase options, rights of first refusal or other preemptive rights to purchase the housing before foreclosure or deed in lieu of foreclosure to preserve affordability. The affordability restrictions will be revived according to the original terms if, during the original affordability period, the owner of record before the foreclosure, or deed in lieu of foreclosure, or any entity that includes the former owner or those with whom the former owner has or had family or business ties, obtains an ownership interest in the project or property.

HOMEOWNERSHIP ACTIVITY	NSP FUNDS	AFFORDABILITY
<b>Financing, New Construction, Rehabilitation or Acquisition of Existing Housing</b>	< \$15,000	5 Years
	\$15,000 - \$40,000	10 Years
	Over \$40,000	15 Years

RENTAL HOUSING ACTIVITY	NSP FUNDS	AFFORDABILITY
<b>Rehabilitation or Acquisition of Existing Housing</b>	< \$15,000	5 Years
	\$15,000 - \$40,000	10 Years
	Over \$40,000	15 Years
<b>Refinance of Rehabilitation Project</b>	Any \$ amount	15 Years
<b>New Construction or Acquisition of Newly Constructed Housing</b>	Any \$ amount	20 Years

**National Objective:** Benefit low, moderate and middle income person i.e., <= 120% of area median income.

**Activity Type:**

NSP Eligible Use	CDBG Eligible Activity:
E) Redevelop demolished or vacant properties	24 CFR 570.201(a) Acquisition, (b)Disposition, (c) Public facilities and improvements, (e) Public services for housing counseling, but only to the extent that counseling beneficiaries are limited to prospective purchasers or tenants of the redeveloped properties, (i) Relocation, and (n)Direct homeownership assistance (as modified below). 204 Community based development organizations.
(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.	24 CFR 570.201 (a) Acquisition (b) Disposition, (i) Relocation, and (n) Direct homeownership and preservation activities, for homes and other residential properties (HUD notes that rehabilitation may include counseling for those seeking to take part in the activity)

**Budget for Activity:** \$1,052,427

**Projected number of units:** 17

### **ACTIVITY 3**

**Demolition-**Funding will be available to remove blighted structures that pose a safety hazard to the community and are structurally unsound for redevelopment or renovations. These properties may be reserved and held and converted for land banking for future construction of rental or homeownership housing units. All single family and multifamily properties acquired will be purchases of foreclosed upon properties. The affordability requirements will be imposed by deed restrictions, covenants running with the land or other lien mechanisms approved by the City.

**National Objective:** Benefit low, moderate and middle income person i.e.,  $\leq 120\%$  of area median income.

**Activity Type:**

NSP Eligible Use:	CDBG Eligible Activity
(D) Demolish blighted structures	24 CFR 570.201(d) Clearance for blighted structures only

**Budget for Activity:** \$100,000

**Projected number of units:** 18

## **ACTIVITY 4**

**Financing-**Housing development partners will work through local financial institutions to develop permanent first and second mortgage products (FHA) and other types of loans) for prospective home purchasers; for the purchase of foreclosed upon properties and either newly constructed homes or renovated properties. Each property considered for purchase will be appraised in accordance with the definition in the NSP regulations. That information will be used to negotiate a discount of, on average, at least 15% using the formula provided in the NSP regulations. NSP funds will be provided to cover principle reductions, interest rate buy-downs, down payment assistance and closing costs at zero to low interest rates for qualified homebuyers whose incomes do not exceed 120% of AML. Interest rates will be determined by income and ability to pay. Interest rates will at no time exceed competitive market rates. Financial institutions' reputation and track record will be of such as to offer competitive rates and flexibility in its mortgage products and limits its fee structure to be advantageous to the borrower, protecting the home buyer from future predatory lending practices. The City will use the resale/recapture restrictions along with placing a lien on the property to ensure long term affordability. The affordability requirements will be imposed by deed restrictions, covenants running with the land or other mechanisms approved by the City. The Grantee/City may use purchase options, rights of first refusal or other preemptive rights to purchase the housing before foreclosure or deed in lieu of foreclosure to preserve affordability. The affordability restrictions will be revived according to the original terms if, during the original affordability period, the owner of record before the foreclosure, or deed in lieu of foreclosure, or any entity that includes the former owner or those with whom the former owner has or had family or business ties, obtains an ownership interest in the project or property.

**National Objective:** Benefit low, moderate and middle income person i.e., <= 120% of area median income.

**Activity Type:**

NSP Eligible Use	CDBG Eligible Activity:
(A) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low- and moderate – income homebuyers.	As part an activity cost for an eligible as defined in 24 CFR 570.206. Also, the eligible activities listed below to the extent financing mechanisms for use to carry them out. 24 CFR 570.201(a) Acquisition, (b)Disposition, (i) Relocation, and (n)Direct homeownership assistance (as modified below). 570.202 eligible rehabilitation and preservation activities for homes and other residential properties (HUD notes that rehabilitation may include counseling for those seeking to take part in the activity).

**Budget for Activity:** \$500,000

**Projected number of units:** 25

